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4 **TESTIMONY OF A. R. WATTS**
5 **FOR**
6 **THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA**
7
8 **DOCKET NO. 2002-1-E**
9
10 **IN RE: CAROLINA POWER & LIGHT COMPANY**
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14 **Q. WOULD YOU PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND**
15 **OCCUPATION?**

16 **A.** A. R. Watts, 101 Executive Center Drive, Columbia, South Carolina. I am
17 employed by the Public Service Commission of South Carolina, Utilities
18 Department, as Chief of Electric.

19 **Q. PLEASE STATE YOUR EDUCATIONAL BACKGROUND AND**
20 **EXPERIENCE.**

21 **A.** I received a Bachelor of Science Degree in Electrical Engineering from the
22 University of South Carolina in Columbia in 1976. I was employed at that time by
23 this Commission as a Utilities Engineer in the Electric Department and was
24 promoted to Chief of the Electric Department in August 1981. I have been in my
25 current position since October 1999. I have attended professional seminars relating
26 to Electric Utility Rate Design, and have testified before this Commission in
27 conjunction with fuel clause, complaint, territorial assignment, Siting Act, and
28 general rate proceedings.

29 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS**
30 **PROCEEDING?**

31 **A.** The purpose of my testimony is to summarize Staff's findings as set forth in the
32 Utilities Department's portion of the Staff Report.

1 **Q. MR. WATTS, WHAT SPECIFIC AREAS WERE ENCOMPASSED BY**
2 **STAFF'S EXAMINATION?**

3 **A.** The Utilities Department's examination of the Company's fuel operations
4 consisted of a review of the Company's monthly operating reports, review of the
5 currently approved Adjustment for Fuel Costs Rider, and review of the Company's
6 short-term projections of kilowatt-hour sales and fuel requirements.

7 **Q. DID STAFF EXAMINE THE COMPANY'S PLANT OPERATIONS FOR**
8 **THE PERIOD?**

9 **A.** Yes, we reviewed the Company's operation of its generating facilities, including
10 special attention to the nuclear plant operations, to determine if the Company made
11 every reasonable effort to minimize fuel costs.

12 **Q. HAVE YOU DETERMINED THAT ANY SITUATIONS, IN THE REVIEW**
13 **PERIOD, WARRANT DETERMINATION THAT THE COMPANY ACTED**
14 **UNREASONABLY IN OPERATING ITS FACILITIES WHICH COULD**
15 **RESULT IN ITS CUSTOMERS BEING SUBJECT TO PAYING HIGHER**
16 **FUEL COSTS?**

17 **A.** No. The Company's generating facilities, particularly the four nuclear units,
18 operated very well during the period under review. These nuclear units averaged
19 88.9% actual capacity factor for the period. This was achieved even though the
20 system experienced refueling outages at three of the four nuclear units during this
21 review period as well as steam generator replacement at the Harris plant. The major
22 fossil units averaged over 95% availability for the majority of the period under
23 review as indicated on Utilities Department Exhibit No. 1.

24 **Q. PLEASE EXPLAIN YOUR CALCULATION OF THE BASE RATE FUEL**
25 **COMPONENT FOR THE PERIOD ENDING MARCH 2003.**

26 **A.** Staff utilized the projected sales and fuel costs for the twelve months ending March
27 2003 and included the under-recovered balance of \$9,906,921 as of December 2001
28 from Audit Exhibit G. We then removed \$2,224,165 from the under-recovered
29 balance to account for the Commission's previously approved amortization by Order
30 No. 2000-0299 dated March 31, 2000. This calculation produced a factor of 1.485

1 cents per kilowatt-hour that would be necessary, for the Company to recover
2 virtually all its anticipated and booked fuel expenses, excluding the previously
3 amortized portion. The major difference between Staff's calculated factor and the
4 Company's proposed base fuel component of 1.490 cents per kilowatt-hour is due to
5 the Audit Staff adjustment to fuel costs of \$435,144. The results of these calculations
6 for various fuel base components are shown on Utilities Department Exhibit No. 10.

7 **Q. WOULD YOU BRIEFLY EXPLAIN THE REMAINING UTILITIES**
8 **DEPARTMENT'S EXHIBITS?**

9 **A.** Exhibit No. 2 shows the Company's Unit Outages for the months of January 2001
10 through December 2001, listing the plants by unit, duration of the outage, reason for
11 the outage and corrective action taken. Exhibit No. 3 lists the Company's
12 percentage Generation Mix by fossil, nuclear, and hydro for calendar year 2001.
13 Exhibit No. 4 reflects the Company's major plants by name, type of fuel used,
14 average fuel cost in cents per KWH to operate, and total megawatt-hours generated
15 for the twelve months ending December 2001. Exhibit No. 5 shows a comparison
16 of the Company's original retail megawatt-hour estimated sales to the actual sales
17 for the period under review. Exhibit No. 6 is a comparison of the original fuel factor
18 projections to the factors actually experienced for the twelve months ending
19 December 2001. Exhibit No. 7 is a graphical representation of the data in Exhibit
20 No. 6. Exhibit No. 8 is the Company's currently approved Retail Adjustment for
21 Fuel Costs Rider. Exhibit No. 9 is a history of the cumulative recovery account.

22 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

23 **A.** Yes, it does.

1 Q [Ms. Belser] Mr. Watts, do you have a summary of your
2 testimony?

3 A Yes, I do.

4 Q Would you give it at this time, please?

5 A Yes. The Utilities Department's examination of the
6 Company's fuel operations consisted of review of the
7 Company's monthly operating reports, review of the
8 currently approved Adjustment for Fuel Cost Rider, and
9 review of the Company's short term projections of
10 kilowatt-hour sales and fuel requirements.

11 Staff reviewed the Company's operation of its
12 generating facilities, including special attention to the
13 nuclear plant operations, to determine if the Company
14 made every reasonable effort to minimize fuel costs.
15 Staff's review found no situations that warranted a
16 determination that the Company had acted unreasonably in
17 operating its facilities and thereby causing its
18 customers to be subject to paying higher fuel costs. The
19 Company's generating facilities, particularly the four
20 nuclear units, operated very well during the period under
21 review. The nuclear units averaged 88.9% actual capacity
22 factor for the period. This was achieved even though the
23 system experienced refueling outages at three of the four
24 nuclear units during the review period. In addition, the

1 refueling outage at the Harris Plant was accompanied by
2 the replacement of the steam generator. The major fossil
3 units averaged over 95% availability for the majority of
4 the period under review as indicated on the Utilities
5 Department Exhibit #1.

6 In calculating the base fuel component for the
7 period, Staff utilized projected sales and fuel cost for
8 the twelve months ending March 2003, and included the
9 under-recovery balance of \$9,906,921 as of December 2001,
10 from Audit Exhibit G. We then removed \$2,224,165 from
11 the under-recovery balance to account for the
12 Commission's previously approved amortization of a
13 certain dollar amount over a four-year period. This
14 calculation produced a factor of 1.485 cents per
15 kilowatt-hour, it would be necessary for the Company to
16 recover virtually all of its anticipated and booked fuel
17 expenses, excluding the previously amortized portion.

18 The major difference between Staff's calculated
19 factor and the Company's proposed base fuel factor of
20 1.490 cents per kilowatt-hour is due to the Audit Staff's
21 adjustment to fuel cost of \$435,144. The results of
22 these calculations for the various fuel base components
23 are shown on the Utilities Department Exhibit #10.

24 Q Does this conclude your summary?

1 A Yes, it does.

2 MS. BELSER: Mr. Chairman, Mr. Watts
3 is available for questioning.

4 CHAIRMAN SAUNDERS: Mr. Elam?

5 MR. ELAM: No questions, Mr.
6 Chairman.

7 CHAIRMAN SAUNDERS: Mr. Austin?

8 MR. AUSTIN: No questions.

9 CHAIRMAN SAUNDERS: Commissioners?

10 EXAMINATION BY COMMISSIONER ATKINS:

11 Q Mr. Watts, how are you?

12 A Fine.

13 Q Can you help point me —and it may not just be in here —
14 but in any of your tables where we can find out what
15 percentage of the generation for a month or for the year
16 and the load that was met and how much of that comprised
17 by purchases?

18 A Not in anything that I have in here, no, sir.

19 Q Okay. But we could do that from the statistics that we
20 have available?

21 A I believe we can, yes, sir.

22 Q Okay. Thank you.

23 CHAIRMAN SAUNDERS: Ms. Belser?

24 MS. BELSER: Nothing further, Mr.

1 Chairman.

2 CHAIRMAN SAUNDERS: You may step
3 down.

4 MS. BELSER: Mr. Chairman that
5 concludes the Staff's presentation.

6 MR. AUSTIN: Mr. Chairman, we'd like
7 to recall Mr. Penny to the stand to clear
8 up some answer that he had that has
9 created a little bit of confusion.

10 CHAIRMAN SAUNDERS: Okay.

11
12 WHEREUPON: RONALD R. PENNY, HAVING
13 BEEN PREVIOUSLY DULY SWORN, RESUMES THE
14 STAND AND TESTIFIES AS FOLLOWS:

15
16 RE-DIRECT EXAMINATION BY MR. AUSTIN:

17 Q Mr. Penny, Mr. Elam asked you a question concerning the
18 purchased power invoices. Do you recall that question?

19 A Yes, sir, I do.

20 Q I believe that the answer you gave may have been a little
21 bit confusing and I want to ask Mr. Elam if he would
22 redirect the question to you.

23 CHAIRMAN SAUNDERS: Mr. Penny, you're
24 still under oath.

RE-CROSS EXAMINATION BY MR. ELAM;

Q Okay, Mr. Penny, let's go about it this way perhaps. One of these purchased power invoices, can you tell me generally what one of those looks like? What is reported to you on one of these invoices?

A It's been a while since I've reviewed actual invoices, Mr. Elam, but many, most of them break down components of fuel, total energy, and a capacity and a total bill, along with some other information. But those are the pertinent information for this.

Q Okay. Do all those invoices have a broken out fuel cost?

A The specific fuel component — the total energy, yes, but specific fuel component is not identified on each one of them. You know, since my interpretation of the earlier question went to that component, that was allowed in this Commission, by this Commission, through the Clause, and that was the energy. And certainly the total energy component is shown on every bill. But the specific fuel is not on some merchants.

Q Explain to me the marketer stipulation in North Carolina and how that relates to that energy portion.

A North Carolina's stipulation that historically has been used is a certain percent of the total energy component of various marketers or merchant suppliers, is prorated

1 as the fuel component for the North Carolina Fuel Clause
2 proceeding.

3 Q Okay. Does CP&L do any kind of proration of the energy
4 portion in its South Carolina Fuel Clause?

5 A No, it does not.

6 Q Why would that not be appropriate?

7 A In South Carolina the entire energy portion, as long as
8 the cost is below our avoided cost of generating
9 ourselves, is allowed through the Fuel Clause Recovery.

10 Q In North Carolina CP&L accepted a 60% factor in its last
11 fuel proceeding as the portion of the energy cost that
12 could be attributed to fuel, correct?

13 A That is correct.

14 Q Okay.

15 MR. ELAM: I would just ask the
16 Commission to take notice of the CP&L's
17 fuel order in North Carolina for last
18 year, it's Docket No. E-2, sub 784, and
19 the order is dated September 13, 2001.

20

21 CHAIRMAN SAUNDERS: Judicial notice
22 will be taken of that document.

23 MR. ANTHONY: Mr. Chairman, I'd also
24 ask you to take notice that the two

1 statutes of the states with regard to fuel
2 cost recovery are different as well as the
3 Commission's applications and tariffs that
4 implement those statutes are different.

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6 CHAIRMAN SAUNDERS: Notice will be
7 taken of that, too.

8 Ms. Belser, do you have any further
9 questions for this witness?

10 MS. BELSER: Nothing further.

11 CHAIRMAN SAUNDERS: Commissioners, do
12 you — based on what happened? Mr.
13 Atkins, do you have any questions in
14 follow up?

15 COMMISSIONER ATKINS: No, sir. Thank
16 you.

17 CHAIRMAN SAUNDERS: Mr. Austin?

18 MR. AUSTIN: We have nothing further,
19 Mr. Chairman.

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21 CHAIRMAN SAUNDERS: You may step
22 down.

23 Mr. Elam, do you have anything else?
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MR. ELAM: I don't, Mr. Chairman.

Thank you.

CHAIRMAN SAUNDERS: If there's
nothing else then, we're going to close
this proceeding and let you know of our
decision as soon as possible.

[WHEREUPON: THE HEARING WAS
ADJOURNED AT APPROXIMATELY 11:25 A.M.]